

Message Text

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ACTION EUR-12

INFO OCT-01 ARA-14 EA-12 ISO-00 AID-05 CIAE-00 COME-00
EB-08 FRB-01 INR-10 NSAE-00 ICA-20 TRSE-00 XMB-04
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STR-07 CEA-01 L-03 H-02 PA-02 SEC-01 /137 W
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R 281402Z JUL 78
FM AMEMBASSY PARIS
TO SECSTATE WASHDC 5410
INFO AMEMBASSY BERN
AMEMBASSY BRUSSELS
AMEMBASSY BRASILIA
AMCONSUL HONG KONG
AMEMBASSY LONDON
AMEMBASSY BONN
AMEMBASSY ROME
AMEMBASSY TOKYO
AMEMBASSY MEXICO
AMCONSUL BORDEAUX
AMCONSUL LYON
AMCONSUL MARSEILLE
AMCONSUL NICE
AMCONSUL STRASBOURG

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USEEC

PASS TREASURY, FEDERAL RESERVE,

E.O. 11652: NA
TAGS; EFIN EGEN FR
SUBJ; NEW LAW TO STIMULATE STOCK MARKET

1. THE NATIONAL ASSEMBLY PASSED ON JULY 13
A LAW AIMED AT INCREASING THE FLOW OF HOUSEHOLD
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SAVINGS INTO THE STOCK MARKET. THROUGH A
COMBINATION OF TAX INCENTIVES AND DISINCENTIVES,
THIS LAW WILL ATTEMPT TO DIRECT SAVINGS INTO
EQUITY INVESTMENT IN PREFERENCE TO MORE
LIQUID, FIXED INCOME FORMS OF SAVINGS.
IT ALSO AUTHORIZES FOR THE FIRST TIME THE CREATION
OF PREFERRED STOCKS. SPECIAL CONSIDERATION HAS

BEEN GIVEN TO FACILITATING THE FINANCING OF SMALL AND MEDIUM-SIZED BUSINESSES. THESE MEASURES SHOULD NOT CONTRIBUTE TO THE GOF'S BUDGET DEFICIT BECAUSE THE TAX REVENUE LOST THROUGH THE NEW DEDUCTIONS FOR STOCK PURCHASES IS EXPECTED TO BE MORE THAN OFFSET BY THE INCREASED WITHHOLDINGS ON MORE LIQUID FORMS OF SAVINGS.

2. PRINCIPAL PROVISIONS OF THIS LAW ARE:

A. FROM JANUARY 1, 1978 THROUGH THE END OF 1981 EACH TAXPAYER CAN DEDUCT ANNUALLY FROM HIS TAXABLE INCOME HIS NET PURCHASES OF FRENCH STOCK IN AN AMOUNT NOT EXCEEDING FF 5,000 PER YEAR. THIS SUM IS INCREASED BY FF 500 FOR EACH OF HIS FIRST TWO DEPENDENT CHILDREN AND FF 1,000 FOR EACH ADDITIONAL CHILD. TAXPAYERS 50 YEARS OR OLDER BEFORE 1982 WILL BE ABLE TO BENEFIT FROM THIS PROVISION UNTIL THEIR RETIREMENT, FOR A MAXIMUM OF 15 YEARS. FOR THESE TAXPAYERS, THE DEDUCTION IS INCREASED TO FF 6,000.

B. THIS PROVISION APPLIES TO THE PURCHASE OF FRENCH SHARES QUOTED ON THE BOURSE OR TRADED ON AN OVER-COUNTER MARKET. IT APPLIES AS WELL TO SHARES UNCLASSIFIED

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OF NON-QUOTED BUSINESSES, BUT ONLY WHEN THERE IS A CAPITAL INCREASE. THE SHARES OF MUTUAL FUNDS CAN BENEFIT FROM THIS DEDUCTION ONLY IF 60 OR 75 PERCENT OF THEIR ASSETS ARE INVESTED IN FRENCH OBLIGATIONS, DEPENDING UPON WHETHER THE MUTUAL FUND IS INCORPORATED OR NOT.

C. IN ORDER TO VERIFY THAT THE DEDUCTED SUMS CORRESPOND TO A NET INCREASE IN SAVINGS INVESTED IN STOCKS, THESE SHARES MUST BE DEPOSITED WITH A SPECIFIED AGENT SUCH AS A BANK OR BROKER, WHO WILL ASCERTAIN ANNUALLY THE BALANCE BETWEEN THE PURCHASES AND SALES OF STOCKS.

D. TAXPAYERS WILL BE FREE TO SELL THE SECURITIES ACQUIRED UNDER THE DEDUCTION. HOWEVER, IF THEIR SALES EXCEED THEIR PURCHASES DURING THE FOUR YEARS AFTER THEIR FIRST DEDUCTION, THEY WILL BE SUBJECT TO A TAX PENALTY.

E. TAXPAYERS WILL BE ABLE TO BENEFIT FROM BOTH THE

TAX DEDUCTION ON STOCK INVESTMENT AND THE
DEDUCTION OF UP TO FF 3,000 OF INTEREST ON BONDS,
PROVIDED BY THE 1977 FINANCE LAW; HOWEVER, IF THEY
CHOOSE BOTH OPTIONS, THEY WILL BE SUBJECT TO A
COMBINED MAXIMUM DEDUCTION OF ONLY FF 3,000.

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(THE GOF WAS DEFEATED ON THIS POINT IN PARLIAMENT
SINCE ITS ORIGINAL BILL PROVIDED THAT THE TAXPAYERS
WOULD HAVE TO CHOOSE ONE OR THE OTHER OPTION).
HOWEVER, SECURITIES OBTAINED BEFORE JUNE 1, 1978
THROUGH OTHER LONG-TERM SAVINGS PLANS CANNOT BE
INCLUDED IN THE TOTAL DEDUCTIBLE.

F. FROM JULY 16, 1978 THE MAXIMUM RATE WITHHOLDING ON INCOME FROM

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LIQUID, SHORT AND
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MEDIUM-TERM FIXED INCOME SECURITIES (TREASURY BONDS, BONDS OF THE CREDIT AGRICOLE, CREDIT MUTUEL, CREDIT FONCIER, AND CERTIFICATES ISSUED BY SAVINGS BANKS, THE POST OFFICE, THE CAISSE NATIONALE DE L'ENERGIE, ETC.) HAS BEEN INCREASED FROM 33.33 PERCENT TO 40 PERCENT. BUT LONG-TERM SECURITIES CONTINUE TO BENEFIT FROM A 25 PERCENT WITHOLDING RATE. THIS MEASURE IS EXPECTED TO BRING THE GOF FF 2 BILLION IN ADDITIONAL REVENUE.

G. FOR THE FIRST TIME, THE CREATION OF PREFERRED STOCKS HAS BEEN AUTHORIZED. THIS MEASURE WILL AID, IN PARTICULAR, THE DIRECTORS OF SMALL AND MEDIUM-SIZED FIRMS TO RAISE CAPITAL WITHOUT RUNNING THE RISK OF LOSING CONTROL OF THEIR FIRMS. THESE SHARES CAN REPRESENT NO MORE THAN A QUARTER OF TOTAL CAPITAL AND NO MORE THAN A THIRD OF VOTING SHARES.

H. THE PRIVILEGE OF FIRMS, QUOTED ON THE BOURSE, TO DEDUCT DIVIDENDS FROM THEIR TAXABLE PROFITS DURING A PERIOD OF SEVEN YEARS FOR THE PURPOSE OF ESTABLISHING A FIRM OR INCREASING CAPITAL HAS BEEN EXTENDED TO ALL FIRMS NOT QUOTED ON THE BOURSE AND TO FIRMS WITH LIMITED LIABILITY. THIS WILL APPLY FOR INCREASES IN CAPITAL FROM JUNE 1, 1978.

3. THE GOF ESTIMATES THAT A MILLION HOUSEHOLDS WILL TAKE FULL ADVANTAGE OF THIS TAX DEDUCTION, RESULTING IN AN ADDITIONAL INVESTMENT OF FF 5 BILLION WITH A BUDGETARY COST OF BETWEEN FF 1.1-1.5 BILLION. MOST FINANCIAL SPECIALISTS FEEL THAT THIS ESTIMATE
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OF NEW MONEY FOR THE BOURSE IS TOO HIGH. CURRENTLY, IN FRANCE THESE APPROXIMATELY 12 MILLION TAXPAYERS BUT ONLY 1.5 MILLION OWNERS OF SECURITIES, SEVERAL HUNDRED THOUSAND HOLDERS OF MUTUAL FUND SHARES AND 200,000 PERSONS WITH LONG-TERM SAVINGS ACCOUNTS. EACH YEAR ONLY ABOUT FF 2BILLION IN HOUSEHOLD SAVINGS FLOWS INTO THE BOURSE. IT IS

THOUGH THAT A MORE REALISTIC ESTIMATE OF THE
INITIAL EFFECT OF THIS LAW WOULD BE FF 2-3 BILLION
IN ADDITIONAL SAVINGS DIRECTED TOWARD THE BOURSE.

4. THERE HAS BEEN A VERY POSITIVE RESPONSE TO
THIS NEW LAW ON THE PART OF THE FINANCIAL
COMMUNITY. THIS HAS, IN PART, BEEN RESPONSIBLE
FOR THE RECNT CLIMB IN THE STOCK MARKET INDEX
WHICH, AFTER A DECLINE IN JUNE, IS CURRENTLY
6.4 PERCENT HIGHER THAN AT THE END OF MAY WHEN THE
LAW WAS PROPOSED. THE BANQUE NATIONALE DE PARIS
AND THE BANQUE ROTHSCHILD HAVE ALREADY TAKEN STEPS
TO CREATE NEW MUTUAL FUNDS. ACCORDING TO AGEFI, A
RESPECTED FINANCIAL JOURNAL, THE QUASI-TOTALITY OF
BANKING INSTITUTIONS SHOULD ACT TO CREATE OR TO
PARTICIPATE IN THE CREATION OF NEW MUTUAL FUNDS.
ANALYSTS CITE THE INSURANCE SECTOR AS A PREVIOUS
SUCCESSFUL EXAMPLE OF THIS TYPE OF MEASURE WHERE
THE USE OF TAX DEDUCTIONS AIDED IN REVITALIZING
THIS SECTOR. ACCORDING TO ONE COMMENTATOR THIS
PROJECT IS BOUND TO ATTRACT SUBSTANTIAL SUMS OF
MONEY, GIEN THE OVERRIDING CONCERN OF THE FRENCH
TO AVOID PAYING TAXES.
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